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SUBJECT: Mindanao: An Economic Overview

Ref: Manila 1050

11. (SBU) Introduction and Summary: Misconceptions abound, both inside and outside the Philippines, about the large southern Philippine island of Mindanao, where the USG focuses its development and counterterrorism activities in the Philippines. In particular, it is easy to over-generalize about a region this large and diverse.

This is the first in a series of reports on Mindanao that will highlight the diversity of the economic circumstances of different regions in order to provide a more textured understanding. In this cable we attempt to make an initial approximation to understanding the economic situation of Mindanao as a whole. Following cables will focus on specific regions and issues. Mindanao includes some regions afflicted by political disorder and poverty, and others that are relatively stable and prosperous. Some parts of Mindanao are growing rapidly while others are among the poorest places in the Philippines. End summary.

Both Rich and Poor

12. (U) Mindanao, the Philippines' southernmost region, is one of the richest areas of the country in terms of natural resources. The region is the country's top producer of fruits, grains, minerals, and forest and marine products. Nonetheless, the people of Mindanao suffer some of the most oppressive poverty in the Philippines. In Tawi-Tawi province, for example, close to 40% of the population are unable to afford even basic food requirements. According to United Nations data, the human development index of some of Mindanao's most depressed provinces approximate the world's poorest countries such as Ghana, Sudan, and Zimbabwe.

Administration of Mindanao

13. (U) Mindanao, including the Sulu archipelago, consists of the Autonomous Region of Muslim Mindanao (ARMM) and five other administrative regions, each with quite different economic characteristics. Mindanao has about 39 percent of the Philippines' total land area, and contains a quarter of its population, but produces only about 18 percent of the country's gross domestic product. The latest population census (2007) reveals that the population growth rate of Mindanao remains high (2.5 percent), stretching available resources among more people. The population of Mindanao consists of descendants of Christian settlers from other parts of the Philippines (72 percent), Islamized indigenous people (20 percent, but a majority in Muslim Mindanao) and non-Islamized indigenous people (eight percent).

Overview of the Mindanao Economy

14. (U) Mindanao contributes about a fifth to the Philippines' total Gross Domestic Product. It produces about 34 percent of the total agricultural production of the Philippines, 15 percent of industrial production, and 13 percent of services. Mindanao's economy is about evenly distributed among the agriculture (35 percent), services (35 percent), and industrial sectors (30 percent). Before 1995, Mindanao was predominantly an agricultural-based economy. In recent years, Mindanao has been able to attract investments in mining and quarrying, telecommunications, business process outsourcing, trade, and tourism. These investments have resulted in the significant growth of the service sector and the mining industry.

15. (U) Mindanao's top five exports in 2007 by value were coconut (copra), bananas, nickel ores, tuna, and iron ore; while its top five export markets were Japan, the United States, China, the Netherlands, and South Korea. Exports from Mindanao increased nearly 25 percent in 2007. In addition to the most productive agriculture and fisheries grounds in the Philippines, Mindanao is rich in mineral resources, including coal, nickel, iron, chromites, and gold. It has nearly half of the country's gold reserves and 83 percent of the nickel reserves in the country, which are the largest in Asia.

Mindanao and the rest of the Philippines

16. (U) The latest National Statistic Coordination Board report on poverty issued in April 2008 (reftel) identified Mindanao, on average, as by far the poorest part of the Philippines. The report indicates that 62 percent of families in Mindanao live below the government-established poverty threshold. The ten richest provinces during 2006 were all on the northern Philippine island of Luzon, where Manila is located, while six of the ten poorest provinces were in Mindanao - three of them in the ARMM. The highest incidence of poverty in the country, at nearly 80 percent of the population, was for Tawi-Tawi, part of the ARMM. Parts of Mindanao also lag the rest of the Philippines on human development indicators such as per capita income, literacy rates, life expectancy, and access to health services. In 2000, eight out of the ten worst-off Philippine provinces in terms of the United Nations Development Program's Human Development Index were in Mindanao.

17. (SBU) An official of the Moro Islamic Liberation Front recently claimed that these statistics confirm the "neo-colonialism of Mindanao by imperial Manila." Some Philippine economists agree that the lack of economic development in Mindanao is partly due to neglect by the central government. The historic lack of central government spending on infrastructure projects in Mindanao has resulted in slow, costly, infrequent, and unreliable transportation links to the rest of the Philippines. Even today, prominent Mindanao business and political leaders complain that Mindanao does not receive its "fair share" of central government spending. Not only Muslim separatists, but also some mainstream politicians and business leaders in Mindanao strongly endorse proposals for more regional autonomy and more local control of local resources.

Mindanao's Urban Bright Spots

18. (U) In sharp contrast to this extreme poverty, Mindanao cities like Cagayan de Oro, Davao, and General Santos, rank among the most developed and prosperous cities in the Philippines. The Philippines National Statistics Office stopped stratifying urban and rural poverty in the year 2000, due to a lack of funding to conduct the more extensive surveys required to make this distinction. Thus, it is difficult to quantify how much poverty is in rural areas versus in urban areas. However, empirical and anecdotal evidence indicates that the areas with the most poverty, lowest education levels, and greatest health problems are primarily rural areas.

19. (U) Cagayan de Oro City in northern Mindanao has the fastest growth rate and highest per capita GDP of any Philippine city not on Luzon Island. The factors that make the city relatively prosperous include unique geographic advantages, its distance from conflict-affected areas, local economic policies that have attracted infrastructure, industrial and power generation investment, and development of relatively inexpensive transportation links to other parts of the country. It has the largest international and domestic

seaport in Mindanao. Cagayan de Oro City has a new Korean-owned luxury hotel and golf course, and a rapidly growing container port (and a second rapidly growing container port nearby). Also nearby is a new \$305 million coal-fired power plant. The city's biggest coup was landing a commitment by the Korean Hanjin Corporation to construct a \$2 billion shipbuilding facility that promises to bring many other investments in its wake, potentially providing employment for tens of thousands of workers, according to Philippine Trade and Investment officials.

¶10. (U) Davao, in southern Mindanao, is a relatively prosperous and progressive city with an economic base quite different from that of Cagayan de Oro. Davao has relied heavily on exports of agricultural products, particularly bananas; and it has recently begun developing new export markets in Russia and the Middle East. An improved road between southern and northern Mindanao has reduced travel time by over half and opened new possibilities for trade with other parts of the Philippines. Overall, the Davao region's exports grew by 10.5 percent in 2007. Region 11, in which Davao is located, has the lowest poverty incidence among Mindanao regions, and Davao City has one of the lowest crime rates of any city in the Philippines.

¶11. (U) General Santos City is another southern Mindanao city that has achieved a relatively high level of development. U.S. development assistance in the 1990's helped the Port of General Santos become one of the country's most modern, and financed an international airport in the city. The General Santos Fishport Complex -- funded in part by Japan's Overseas Economic Cooperation Fund -- is the Philippines' second largest port for fishing boats. The Complex services fishing boats and processes fish for boats from several Asian countries. General Santos is the country's leading producer of sashimi-grade tuna and largest tuna exporter (the Philippines ranks among the top ten tuna producing countries in the world.)

Barriers to Economic Growth -----

¶12. (SBU) All the regions of Mindanao suffer from the same barriers to economic growth that afflict the whole country, though in some cases they are more acute in Mindanao. These include the concentration of economic and political power in the hands of a few families resulting in cartelization of key sectors, widespread corruption, and weak rule of law. Also shared with the country as a whole are the logistical disadvantages of an archipelagic country. Some deficiencies in Philippine economic policies have even greater impact on Mindanao than on other parts of the country. For example, restricted entry and cartelization of the maritime shipping industry and the poor record of the Philippine Ports Authority both make transport of cargo and passengers from Mindanao to the rest of the country unreasonably expensive.

¶13. (SBU) Mindanao, however, also has its own challenges. Some parts of Western Mindanao and the Sulu Archipelago suffer from frequent bouts of secessionist violence and terrorism, while a simmering communist insurgency affects other parts of the region and apolitical banditry affects much of Mindanao. Traditional Mindanao attitudes are also a challenge. The tradition of "rido" or "blood feud" across and even within the different ethnic groups of the region adds to the violence. Some observers assert that the traditional culture of indigenous peoples in Mindanao supports authoritarian power structures where a single individual often exercises control over the resources and people of a district. This traditional outlook may encourage local leaders to view public assets as personal property and lead to even more severe governance problems than found in other parts of the Philippines. Under-investment in infrastructure, education and health care, endemic throughout the Philippines, has been particularly severe in Mindanao.

¶14. (SBU) Comment: Mindanao is a remote and often misunderstood region. It is also a key region for U.S. interests, as it is on the front lines of the war on terror. This series of cables will focus on its economic complexity with an eye to identifying fundamental problems and, where possible, potential solutions.

Kenney